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Madame Chairwoman and Madame Ranking Member, I'd like to thank you for inviting USDA Rural Development to your hearing this morning. We are pleased to discuss our work in housing the people of West Virginia, as well as commenting on larger housing issues in rural America. We appreciate your committee's strong support for rural housing.

I will summarize USDA's current experiences in single family mortgage lending and multifamily rental housing. In this year's stressed mortgage markets, Rural Development is pleased to report strong results. Our delinquency rate on direct single family loans is down 17% from 2000 and 26% from 1998, and stands near its all-time low. In fact, USDA's direct loans now enjoy a delinquency rate 35% lower than the private sector, and significantly below that of FHA. In a time of rapidly increasing gas prices, insurance costs, and local taxes, we are keeping more of our “stressed” borrowers in their homes.

Why has USDA's mortgage portfolio performed well in a difficult financial environment? I would suggest four factors are at play. First, most of rural America never experienced a housing price 'bubble'. USDA Rural Development is limited to lending in rural areas and towns under 20,000 in population.

Secondly, USDA required solid documentation of income and appraised value. Even though we will lend up to 102% of the value of a house for a loan in the Single Family Housing Guaranteed Loan Program, the emphasis we place on solid underwriting has covered any perceived increase in risk. Third, we don't make adjustable rate loans; any change in subsidies on our direct loans is means tested; adjustments in payments occur only if income has increased enough to cover it.

And finally, we don't hastily seize the homes of borrowers in trouble. Rural Development’s 600-person servicing office in St. Louis works closely with direct loan borrowers to adjust their payments when necessary. Flexible forbearance and communications with delinquent borrowers has led to a 62% cure rate on our foreclosure list. That is, more than half of the borrowers we set up a payment plan with stay in their homes and bring their loans current. The result is less risk for the taxpayers with a 98+% success rate in our overall portfolio.

We support FHA's efforts to support borrowers facing difficulty through its FHA Secure and general refinancing programs. USDA Rural Development is only permitted by the Housing Act to refinance loans to existing USDA borrowers, but we are supporting the markets by bringing in new home purchasers, who can provide strength to housing prices.

USDA's volume for new home purchase mortgages has almost doubled since 2007. Where we originated 38,000 loan guarantees in fiscal year 2007, we expect to issue approximately 60,000 for fiscal year 2008.

This is clear evidence that USDA Rural Development is doing its job: providing loans in rural areas when the private sector is temporarily unable to meet the demand. I would note that this is a cyclical role for government. In the years that private lenders are active, the government lending agencies recede, cycling up again when the private sector is down.

An example of how the government exposure to the mortgage markets can downsize is seen in our success with our Direct Single Family Loan program. In 2001, we began actively encouraging our subsidized borrowers to refinance into the unsubsidized markets to take advantage of low interest rates. Over 250,000 low and very low income borrowers were guided through the process of refinancing into a private sector loan. This gave them higher credit ratings, more stable payments, full ownership of the equity in their homes, and removed the liability from the US taxpayer. This demonstrates that the federal credit agencies can be responsible, counter-balancing stabilizers for the mortgage markets.

So this year, USDA will originate 60,000 loan guarantees and 9,800 direct loans. The guarantee program has not only grown to be seven times the size of the direct program, but it has also matured to where it is picking up more of the hard-to-place cases. Take, for example, very-low-income borrowers or "VLI loans". The guarantee program this year will make approximately 2,520 VLI loans, almost the same as the 4,000 non-self-help VLI loans in the whole Direct program. Yet guarantees cost only 1/10 of the budget authority. That is a powerful indicator: the same number of VLI loans at 1/10 the cost to the taxpayer.

Another indicator of how well guarantees are helping the low end of the market is in how many borrowers with poor credit we can help without losing money. In the guarantee program, 23% of our loans went to people with Fair, Isaac and Company (FICO) scores below 619 (classed as fair or poor), or no credit score at all. Yet our delinquency rates are lower than FHA's, while FHA has broader geographic coverage with differing market conditions. This ability to take into account special conditions with non-standard borrowers provides low income families with a loan they would be very unlikely to get in the private sector.

In West Virginia this year, we expect to make 700 home purchase guarantees, and 150 direct home loans. Overall the volume is up. Furthermore, the net foreclosure rate on our loans in West Virginia is .81%, ranking West Virginia as the 14th highest performing state in the country. While any foreclosures at all represent a human tragedy and should be avoided wherever possible, West Virginia should be proud of its relative strength in housing markets at a time of difficulty nationwide.

West Virginia can also be proud of the fact that it has the highest homeownership rate in the country. Approximately 78% of all occupied homes are owner occupied, adding stability to communities and their owners. But West Virginia, being a predominantly rural state, does have certain housing problems that are common in rural America in general. To begin with, the state has a history of outmigration. Homeowners remaining in those areas typically experienced a loss of equity value in their homes. The result is widespread deterioration of the physical housing stock, which has eroded equity. Without excess equity value in the housing stock, maintenance is routinely deferred as the costs of repairs cannot be recovered on sale of a home, and there is little ability to finance repairs from home equity borrowing.

Out-migration is not a rare occurrence or something limited to certain areas. Fully half of the 2,000 non-metro counties in the US have stagnant or declining populations. The decline-of-jobs/decline-of-housing stock dynamic is also seen in urban areas that experience outmigration and loss of high-paying jobs. The difference in rural areas is simply that the effects occur in isolated areas far from general view.

So what is the answer to this loss of equity value and physical deterioration? Fundamentally, the answer is economic growth and diversification of the local economy. That requires hard work and sacrifice by local leaders, education of the workforce, and support for necessary infrastructure in the area.

A very weak local economy also requires adjustments in housing policy. Subsidized new construction, for example, in an area with a vacancy rate over 10% serves mostly to create another vacancy in the area and depress all homeowner's equity values even further. Money for new construction in such markets is far better spent on rehabilitation and income supplements.

To this end, USDA Rural Development weighs its funding formulas to direct more rehabilitation grant funding to weak economic areas and to the elderly and handicapped. Furthermore, we make available low-cost loans on generous underwriting terms to make up for the lack of home-equity financed rehabilitation. In our Section 504 Home Rehabilitation program, West Virginia utilizes over 100% of their state allocation each year.

I thank the committee for their time and interest in America's rural housing issues and I look forward to taking your questions.